Funding deposit insurance

Author:Dick OosthuizenRyan Zalla

Date:2022-08-10

Keyword:NA

Url:[click here](https://www.ecb.europa.eu/pub/research/working-papers/html/papers-2022.include.en.html)

Attachment:[click here](https://www.ecb.europa.eu//pub/pdf/scpwps/ecb.wp2704~85addf8ce6.en.pdf?738e3374d420352fa402e3f8be1099af)

From:ECB-working\_paper

AbstractWe present a quantitative model of deposit insurance. We characterize the policymaker’s optimal choices of coverage for depositors and premiums raised from banks. Premiums contribute to a deposit insurance fund that lowers taxpayers’ resolution cost of bank failures. We find that risk-adjusted premiums reduce moral hazard, enabling the policymaker to increase deposit insurance coverage by 3 percentage points and decrease the share of expected annual bank failures from 0.66% to 0.16%. The model predicts a fund-to-covered-deposits ratio that matches the data and declines in taxpayers’ income due to taxpayers’ risk aversion.JEL CodeG21 : Financial Economics→Financial Institutions and Services→Banks, Depository Institutions, Micro Finance Institutions, MortgagesG28 : Financial Economics→Financial Institutions and Services→Government Policy and RegulationNetworkECB Lamfalussy Fellowship Programme